

**REPORT OF THE AUDIT OF THE
MORGAN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2007**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MORGAN COUNTY SHERIFF

**For The Year Ended
December 31, 2007**

The Auditor of Public Accounts has completed the Morgan County Sheriff's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$12,916 from the prior year, resulting in excess fees of \$42,082 as of December 31, 2007. Revenues increased by \$38,216 from the prior year and expenditures increased by \$25,300.

Report Comments:

2007-01 The Sheriff Should Deposit Receipts Timely
2007-02 The Sheriff Should Prepare Monthly Bank Reconciliations
2007-03 The Sheriff Did Not Receive 1/12 Of His Salary Each Month
2007-04 The Sheriff's Office Lacks Adequate Segregation Of Duties
2007-05 The Sheriff Should Submit Financial Reports To The Department For Local Government

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Conley, Morgan County Judge/Executive
The Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Morgan County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 29, 2008 on our consideration of the Morgan County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Tim Conley, Morgan County Judge/Executive
The Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

2007-01 The Sheriff Should Deposit Receipts Timely
2007-02 The Sheriff Should Prepare Monthly Bank Reconciliations
2007-03 The Sheriff Did Not Receive 1/12 Of His Salary Each Month
2007-04 The Sheriff's Office Lacks Adequate Segregation Of Duties
2007-05 The Sheriff Should Submit Financial Reports To The Department For Local Government

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Morgan County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

July 29, 2008

MORGAN COUNTY
 MICKEY WHITT, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	8,095	
State Fees For Services:			
Finance and Administration Cabinet	\$	21,157	
Sheriff Security Service		<u>8,949</u>	30,106
Circuit Court Clerk:			
Fines and Fees Collected			1,490
Fiscal Court			17,918
County Clerk - Delinquent Taxes			3,513
Commission On Taxes Collected			116,564
Fees Collected For Services:			
Auto Inspections		2,945	
Serving Papers		18,360	
Transporting Prisoners		859	
Telecommunications Tax		1,387	
10% Add-on Fees		35,267	
Carrying Concealed Deadly Weapon Permits		<u>2,775</u>	61,593
Other:			
Miscellaneous		4,791	
Interest Earned		<u>148</u>	<u>4,939</u>
Total Revenues			244,218

The accompanying notes are an integral part of this financial statement.

MORGAN COUNTY
 MICKEY WHITT, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 71,688
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Employee Benefits-

Employer's Share Social Security	8,298
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Employer's Share Retirement	3,273
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Employer's Share Hazardous Duty Retirement	26,165
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Contracted Services-

Advertising	688
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Materials and Supplies-

Office Materials and Supplies	1,405
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Office Expense	3,891
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Uniforms	3,448
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Auto Expense-

Maintenance and Repairs	2,243
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Other Charges-

Conventions and Travel	1,015
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Dues	665
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Postage	2,936
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Carrying Concealed Deadly Weapon Permits	2,010
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Fugitive Transport	2,874
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Miscellaneous	419
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Total Expenditures	<u>\$ 131,018</u>
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Net Revenues	113,200
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Less: Statutory Maximum	<u>71,118</u>
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Excess Fees Due County for 2007	42,082
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Payment to Fiscal Court - January 31, 2008	<u>26,562</u>
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Balance Due Fiscal Court at Completion of Audit *	<u><u>\$ 15,520</u></u>
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* Note - The Sheriff presented a check to the County Treasurer for the balance due fiscal court on August 11, 2008.

The accompanying notes are an integral part of this financial statement.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent for the first six months and 33.87 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Morgan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Morgan County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 4. Kentucky Law Enforcement Foundation Program Fund

The Morgan County Sheriff's office was awarded a grant under the Kentucky Law Enforcement Foundation Program Fund (KLEFPF) from the Commonwealth of Kentucky Department of Criminal Justice Training. Under the program, an eligible officer is entitled to receive up to \$3,100 annually as provided in KRS 15.460. During 2007, the Morgan County Sheriff's office received \$8,095. All funds received were expended for the intended purpose.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Conley, Morgan County Judge/Executive
The Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Morgan County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated July 29, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Morgan County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting: 2007-01, 2007-02, 2007-03 and 2007-04.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Morgan County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations: 2007-05.

The Morgan County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Morgan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 29, 2008

COMMENTS AND RECOMMENDATIONS

MORGAN COUNTY
MICKEY WHITT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

2007-01 The Sheriff Should Deposit Receipts Timely

Receipts were not batched daily as required by the Uniform System of Accounts and receipts were not deposited timely. During 2007, we noted significant delays from the date on the deposit ticket to the date the deposit cleared the bank. Also, we found that two checks from the Kentucky State Treasurer were not deposited until one year after the sheriff received the checks.

A strong internal control system requires that all receipts be batched daily, posted to a checkout sheet and receipts ledger and promptly deposited into the bank. By failing to account for monies collected on a daily basis and immediately depositing funds on hand, the Sheriff is exposing himself to significant risks of theft, misplacement of funds, inaccurate recordkeeping, overdraft of bank account, fee account deficit, and mismanagement of funds. We recommend the Sheriff begin batching receipts daily, posting the receipt amount to a daily checkout sheet, and depositing the funds into the fee account each business day.

Sheriff's Response:

Our office has a very small amount of cash flow, and we are unable to make daily deposits. We keep a daily check-out sheet and make weekly deposits.

2007-02 The Sheriff Should Prepare Monthly Bank Reconciliations

The Sheriff did not prepare monthly bank reconciliations in 2007. Bank reconciliations are a very useful tool in agreeing receipt and disbursements ledgers to bank activity. In addition, timely bank reconciliations are essential in detecting errors and misstatements that can occur. The absence of bank reconciliations increases the risk that errors will occur and go undetected, leading to inaccurate ledgers, financial reports, etc. We recommend the Sheriff prepare monthly bank reconciliations.

Sheriff's Response:

Our office is now preparing all bank reconciliations and keeping an accurate check on all receipts and disbursements for the office.

MORGAN COUNTY
MICKEY WHITT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2007
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2007-03 The Sheriff Did Not Receive 1/12 Of His Salary Each Month

The Sheriff receives \$1,200 of compensation each pay period (two weeks) and then receives a lump sum payment to achieve the salary maximum of \$71,118 in December. KRS 64.535 requires the Sheriff to receive his annual salary in equal installments that represent 1/12 of the total allocated amount each month. We recommend the Sheriff confer with the County Treasurer about how to resolve this issue to become compliant with KRS 64.535.

Sheriff's Response:

With a tight budget throughout the year, our office is unable to pay the sheriff his full salary each month. The sheriff only receives a portion of his salary to help with the expenditures that require our office to operate.

2007-04 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties due to the responsibilities of recording, depositing, and reconciling cash being delegated to the same individual. The functions of receiving, recording, depositing, and reconciling cash should be separated whenever possible in order to decrease the risk that errors, misstatements, and/or fraud will occur and go undetected. Since only one person performs most of these functions, there is no assurance that financial transactions are accurate, complete, and free of error/misstatement. We recommend the Sheriff segregate the duties of recording, depositing, and reconciling cash or implement and document compensating controls to offset this control deficiency. Examples of compensating controls include: the Sheriff comparing daily checkout sheet to receipts ledger and bank deposit, reviewing bank reconciliations for accuracy, performing surprise cash counts, signing all checks, reviewing invoices prior to payment, and reviewing all financial reports. He could document his review process by initialing reports and supporting documentation.

Sheriff's Response:

We have a small office, but our duties are equally divided. The sheriff does daily checks on all receipts and disbursements ledgers and bank deposits. The sheriff also signs all checks and payments for our office. The sheriff also initials and reviews all bank accounts.

Auditor's Reply:

While conducting a subsequent audit in 2008, we noted that the Sheriff had implemented the procedures he outlines above. However, for the period under audit, these procedures were not in place.

MORGAN COUNTY
MICKEY WHITT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2007
(Continued)

STATE LAWS AND REGULATIONS:

2007-05 The Sheriff Should Submit Financial Reports To The Department For Local Government

The Sheriff did not submit a quarterly report to the Department for Local Government (DLG) for 2007. DLG requires fee officials to file quarterly financial reports listing receipts and disbursements for the quarter and in total for the year-to-date within 15 days of the end of a financial quarter. The lack of complete and accurate financial reports could cause the official to make improper financial decisions, inadvertently overspend his budget, and/or create a deficit in his fee account. We recommend the Sheriff ensure that all financial reports are complete, accurate, and submitted timely.

Sheriff's Response:

Our office is now using an excel spreadsheet that shows a breakdown of the information needed to submit all financial reports to the Department For Local Government.

